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Recommendations of the Board of Auditors 1998-1999

Steps taken by UNDP after the qualification of the financial statements for the 1998-1999 biennium

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I. Introduction

1. The present document contains an account of the steps being taken by UNDP to address the concerns raised by the United Nations Board of Auditors and the Advisory Committee on Administrative and Budgetary Questions (ACABQ) and supplements the information presented in document DP/2001/7.

2. UNDP is grateful to the United Nations Board of Auditors and to ACABQ for engaging in a constructive dialogue that helps to maintain transparency in matters of institutional accountability. Most of ACABQ comments cover issues that UNDP has discussed directly and quite extensively with the Board of Auditors.

3. The focus of the document is on the qualified opinion of the United Nations Board of Auditors on the financial statements of UNDP.

II. Audit qualification

A. National execution

4. In previous years, in its approach to the audit of nationally executed projects, UNDP complied fully with Financial Regulation 16.04, which states that each project must be audited at least once in its lifetime. Many projects, particularly those that were large, unusual, or had problems, were selected for additional audits.

5. The requirement that UNDP places on Governments to produce audit assurances on nationally executed projects is an essential tool to support good management: it is also essential in the demonstration of results, a central concern of the Executive Board. UNDP has been working very hard to address this question, in particular for the last two bienniums. Since 1990, when the level of audited expenditures stood at 3 per cent, the situation has improved appreciably and the level now stands at 75 per cent for the last biennium.

6. While progress has been achieved, it is important to understand that a number of different aspects remain to be dealt with. Timing lies at the core of the issue. At a more substantive level is the issue of national capacity constraints. Here, UNDP is focusing on both the audit function and the performance of the execution units themselves. The first type of constraint is reflected in either late submission or non-submission of audit certificates; the second, by notes of unsatisfactory performance on certain aspects of nationally executed projects. Most government auditors fulfil their duties very seriously and provide UNDP with substantial assessments of problems detected under national execution.

7. To increase the level of audit coverage significantly, the Administrator has instructed resident representatives, effective 2000, to ensure that an audit is conducted for all UNDP projects (including those funded from funds and trust funds) with estimated expenditures over $100,000.

8. The $723 million qualification on the UNDP financial statements for 1998-1999 consisted primarily of national execution expenditure in 30 countries. The Administrator has instructed the resident representatives of those countries to ensure that measures are taken to increase, retroactively, the audit coverage for the

biennium 1998-1999. Future audit reports of the Board of Auditors will refer to the additional audit coverage achieved by UNDP for the biennium 1998-1999.

9. The starting point for the audit should be the Government's record of expenditure. In the past, the Board of Auditors has waited for the combined delivery report before starting audits. The country offices have been instructed to enter into a dialogue with their government counterparts on the need (a) to commence their audits at an interim stage of the year (e.g., after nine months) and (b) to complete the audit of the final three months once the 12-month expenditure reports are ready so that the 30 April deadline for submission of these reports can be met. Full compliance is expected for all 2001 audits.

10. The above instructions are being reinforced, effective 1 February 2001, by changes being made in the UNDP Programming Manual, which will clearly state that each project shall be audited on an annual basis subject to its expenditure being in excess of $100,000.

11. In addition, the country offices are being instructed to encourage their government counterparts to use local private audit firms where there is insufficient or limited capacity in the office of the national Auditor General to meet the audit deadline.

B. Bank reconciliation

12. In its report on the biennium 1998-1999 (A/55/380/Add.1), the United Nations Board of Auditors noted that there were 2,763 outstanding items as of 20 July 2000, including disbursements totalling $5.3 million, shown in the UNDP accounting records but not in the bank statement, and disbursements totalling $5.8 million shown in the bank statement but not in the UNDP accounting records. Although the absolute value of these two amounts aggregate to $11.1 million, as noted in the ACABQ report, it must be borne in mind that the net effect of these offsetting debits and credits is $0.5 million.

13. This problem arose as a result of the implementation of a new accounting system, the Integrated Management Information System (IMIS), in UNDP in April 1999. UNDP was required to have in its records financial data with references from the old general ledger financial reporting system (GLFRS) for the period up to March 1999 and references from IMIS from April to December 1999. The data conversion from GLFRS to IMIS took longer than planned, which resulted in the year-end process being delayed by three months. In addition, the software used for the automated bank reconciliation was not Y2K compliant and was replaced by a new system, which became operational after the year-end close. Therefore, as it was not possible to use the electronic bank-reconciliation system, more than 100,000 items had to be researched and reconciled manually; accordingly, all outstanding items could not be cleared by the audit deadline.

14. UNDP is pleased to report that since the audit deadline the manual matching process has continued. All of the $5.8 million of disbursements shown in the bank statement but not in the UNDP accounting records have been reconciled and cleared and only $0.7 million representing miscellaneous credits shown in the UNDP accounting records but not in the bank statement are not yet cleared. UNDP is sure that there is no risk of loss to the organization from this outstanding amount and is

continuing its time and labour-intensive research and reconciliation of the items. These items will be reviewed with the United Nations Board of Auditors later in 2001 during its interim review of the UNDP accounts.